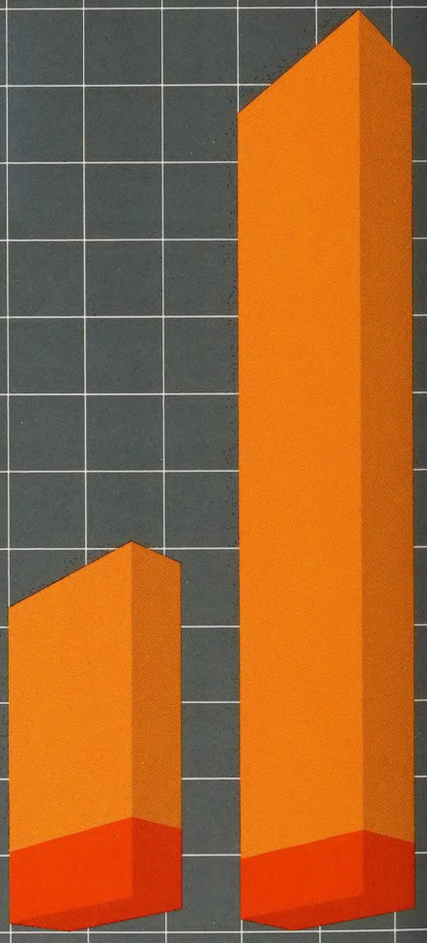
ANNUAL REPORT 1981

ALGOMA STEEL



ALGOMA STEEL

Highlights

THE ALGOMA STEEL CORPORATION, LIMITED

Tons and dollars in millions except per share data	1981	1980	%
Shipments of steel products (tons)	**2.519**	2.415	+4
Sales	**$1,426.4**	$1,149.1	+24
Funds from operations	**$ 269.4**	$ 181.4	+48
Depreciation and amortization	**$ 49.7**	$ 47.3	+5
Earnings before income taxes and equity in earnings of AMCA International Limited	**$ 225.8**	$ 121.2	+86
Net earnings	**$ 165.0**	$ 109.2	+51
—from integrated steel operations	**$ 138.2**	$ 82.4	+68
—from AMCA International Limited	**$ 26.8**	$ 26.8	
Per common share data			
Net earnings (1)	**$ 10.85**	$ 8.21	+32
Dividends paid	**$ 1.10**	$ 1.00	+10
Book value	**$ 62.52**	$ 52.77	+18
Long term debt as a percent of capitalization	**22%**	25%	
Return on average total investment	**13.6%**	11.0%	
Return on average common shareholders' equity	**18.8%**	14.8%	
Closing market price —8% tax deferred preference share	**$ 16.875**	$ 22.50	
—common share	**$ 44.375**	$ 37.75	

(1) Based on the weighted average of common shares outstanding during the year of 14,029,353 in 1981 and 11,888,400 in 1980.

1981

$246.6 Million **Manufacturing Facilities**

$ 18.1 Million **Mining Properties**

$264.7 Million **Total**

1980

$ 82.4 Million **Manufacturing Facilities**

$ 24.8 Million **Mining Properties**

$107.2 Million **Total**

Capital Expenditures

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Windsor Park Rodeway Inn, Sault Ste. Marie, Ontario, Tuesday, April 20, 1982 at 2:15 p.m. Eastern Standard Time. Notice of Meeting, an Information Circular and Proxy will be mailed separately to each Shareholder.

Les actionnaires qui désirent recevoir ce rapport en français sont priés d'en faire la demande au Secrétaire, Aciers Algoma Limitée, Sault-Sainte Marie, Ontario.

EXECUTIVE OFFICES

503 Queen Street East
Sault Ste. Marie, Ontario
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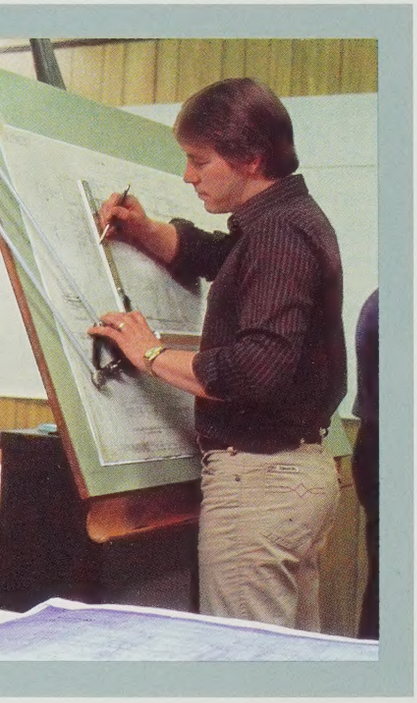
Report to Shareholders

We can look back on 1981 as a year of accomplishment and a continuation of the steady progress made by the Corporation in recent years. Since 1975, earnings have grown at a compound rate of 25 percent per annum, and our financial position has strengthened. Algoma's performance is particularly favourable when compared with that of steel companies in most Western World industrialized countries where stagnant domestic and export demand has forced closure of many non-profitable plants.

Sales of $1.43 billion and net earnings of $165.0 million were 24 percent and 51 percent, respectively, above last year. Earnings per common share after providing for preference share dividends were $10.85 compared with $8.21 per share a year ago. Equity earnings from the 43 percent interest in AMCA contributed $1.91 per share in 1981 compared with $2.26 per share the previous year.

The Corporation's 1981 results benefited from new facilities, strong demand for major product lines, the ability of the market place to absorb price increases and emphasis on production and sale of higher margin products. The record 1981 sales and earnings were achieved despite costly work stoppages due to strikes and restricted iron and steel production during the lengthy reline of our largest blast furnace. The reduced internal raw steel supply was supplemented by large purchases of semi-finished steel to maintain rolling mill operations and shipments to customers.



Cash flow from operations of $269.4 million and $77.4 million of the cash and short term investments on hand at the beginning of the year were used to fund capital expenditures, dividend payments and an increase in operating working capital. No external financing was placed during the year and only marginal use was made of bank lines of credit. The dividend on common shares was increased to 30 cents per share in the third and fourth quarters, resulting in a total annual dividend of $1.10 per share.

The return on average total investment increased from 11.0 percent in 1980 to 13.6 percent in 1981 which was well above the average for Western World integrated steel companies, but below that required to support the planned capital expenditures for expansion and modernization. Earnings must continue to grow to provide the required cash flow and to facilitate the additional borrowing that will be needed to fully implement the ambitious construction program of the 1980's.

The Corporation was in registration with a preliminary prospectus for several periods during the year to enable it to secure additional long term debt when financial market conditions were favourable. A stronger cash position than anticipated permitted deferral of a decision to raise money in the unfavourable 1981 financial markets but additional long term financing is planned for 1982.

Capital expenditures totalled $264.7 million and are expected to exceed $300 million in 1982. Major projects will include continued construction of the new $300 million seamless tube mill and commencement of work on a new $160 million coke oven battery.

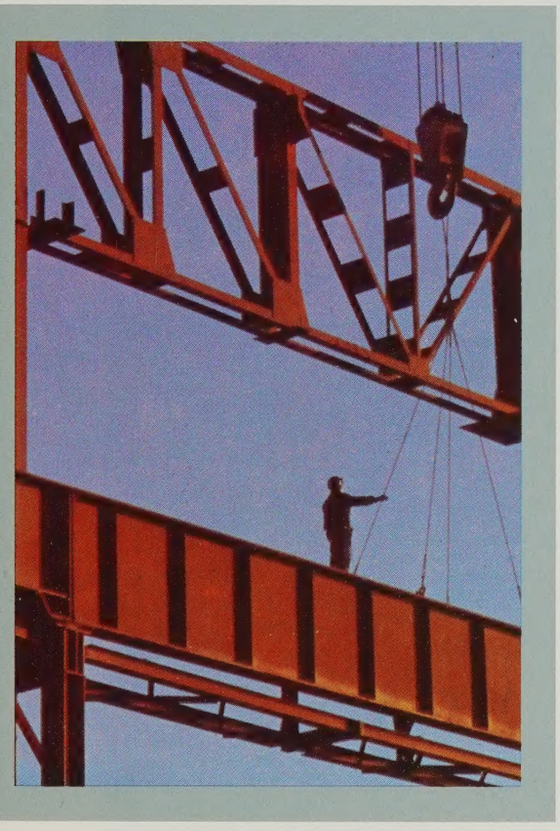
A major concern during this period of unprecedented capital spending was the November 12th Federal Budget with its proposed tax changes. Algoma has consistently been a responsible user of the tax provisions legislated by government to encourage capital spending. Changing of capital cost allowance for projects which of necessity require extended construction periods and often five or more years before showing a real return is inconsistent and in direct conflict with the stated federal government policy of encouraging Canadian industrial development. Also, change in resource allowance as it applies to the smelting in Canada of Canadian iron ore is another example of federal tax policy which is inconsistent with previously stated objectives.

It is difficult to understand the rationale for these tax changes which detract from the competitive position of Canada's integrated steel producers in a period of world steel oversupply and declining demand. The federal government has chosen to increase taxes and reduce the cash flow of Canada's major integrated steel companies at the same time that most Western World countries, including the United States, are assisting their steel industries with tax relief or subsidies. The negative provisions of the November 12th Budget, which impact directly on the steel industry, could cause deferral or cancellation of parts of Algoma's planned expansion if no material changes

are made. Consequences of a restricted capital program would be decreased employment in both the short and long term and reduced future cost competitiveness.

World steel competition increasingly demands superior performance as a prerequisite for growth in sales, earnings and employment. The outlook as we enter 1982 is one of a declining market for steel products and increasing competition in both domestic and export markets. Rolled steel imports into Canada in 1981 not only increased in volume, but the selling prices were substantially below domestic list prices. Federal government officials have been advised of our concern over the high tonnages of wide flange beams and plate imported during the year, which increased inventories and contributed to reduced operations at the Steelworks Division in early 1982.

The high order backlog that was in place entering 1981 was substantially reduced by year end. The declining Canadian and United States economies show no indication of any early recovery. Success in 1982 will demand efficient production and marketing of quality products to reliably service steel customers in selected markets. Cost control will be the key to Algoma maintaining satisfactory margins while selling products at prices that will retain its competitive position in the market place.



The proven ability of Algoma's union and management employees to work together in achieving the common goal of a safe workplace was one of the most significant accomplishments in 1981. This example of full co-operation must now be extended to achieving the improvements in product quality and production efficiency which are essential to future security of the company and its employees. The new labour contracts negotiated throughout the Corporation in 1981 will result in reduced earnings unless the increased cost of wages and benefits is offset by increased productivity and higher selling prices.

The Board of Directors records with deep regret the death of David S. Holbrook on March 15, 1981. Prior to his retirement in July 1977, Mr. Holbrook served the Corporation with distinction for thirty-four years, twenty of which were as Chairman and Chief Executive Officer. He was recognized by his peers and associates as one of North America's outstanding steel company executives. His wise counsel and unending interest in progress of the Corporation will be sadly missed. David S. Holbrook scholarships have been established commencing in 1982 to commemorate his name and to recognize his service to the Corporation and to communities in which Algoma operates.

At the organizational meeting of the Board of Directors immediately following the 1981 annual meeting, Walter G. Ward retired as Chairman after four years of dedicated service and Dr. John Macnamara was appointed Chairman and Chief Executive Officer. Peter M. Nixon was appointed President and Chief Operating Officer, Robert N. Robertson, Senior Vice President – Commercial, and Patrick L. Rooney, Senior Vice President – Operations. John J. MacDonald was appointed Secretary following the resignation of Henry A. Smith who had served as Secretary and General Counsel since September 1976, and James T. Melville was appointed Assistant Secretary. James D. Little was appointed Assistant Treasurer effective July 1, 1981.

On January 1, 1982, Donald L. McEachern was appointed Vice President – Sales.

Douglas Joyce, Senior Vice President, retired on February 1, 1982 after thirty-three years of outstanding service. His contribution and accomplishments during the twenty years he served as the Corporation's senior operations officer are deeply appreciated.

The Directors acknowledge with sincere appreciation the efforts of all employees who contributed to the Corporation's very favourable 1981 results. The support of customers, suppliers and shareholders is also recognized.

Chairman and
Chief Executive Officer

President and
Chief Operating Officer

Sault Ste. Marie, Ontario
February 26, 1982

Building the Future

Capital spending of $264.7 million in 1981 was more than double the previous year and almost three times the 1979 total; and the ambitious construction program of the 1980's calls for even greater expenditures in 1982 and beyond. At Algoma's mines and steel plants, dollars are being transformed by engineering and construction into the concrete, steel and machinery that will help build and secure Algoma's future as a progressive, fully integrated Canadian steel company.

Expansion, modernization, new products, better environmental control and improved safety, health and welfare facilities are all included in the program now underway. There is no area of the Corporation's operations that is not involved.

At Cannelton Industries, Inc. coal production is expanding. The Indian Creek coal preparation plant is being tested at higher outputs of metallurgical coal as mine production increases. A new Kanawha Division underground steam coal mine is being transformed from its initial trial stage of development into a permanent operation with steam coal production equal to that of the existing surface mine. A Kanawha River barge loading facility completed in 1981 will accommodate the increasing flow of Cannelton steam coal that will service utility company customers.

The Tilden Iron Ore Mine, in which the Corporation has a 30 percent equity interest, has successfully operated at its designed 8 million gross ton annual production rate and awaits only an improved market to demonstrate its full potential as a modern and efficient iron ore supplier. The Stage IV construction and development program recently completed at the Algoma Ore Division in Wawa, Ontario, is now in

New seamless tube mill under construction.

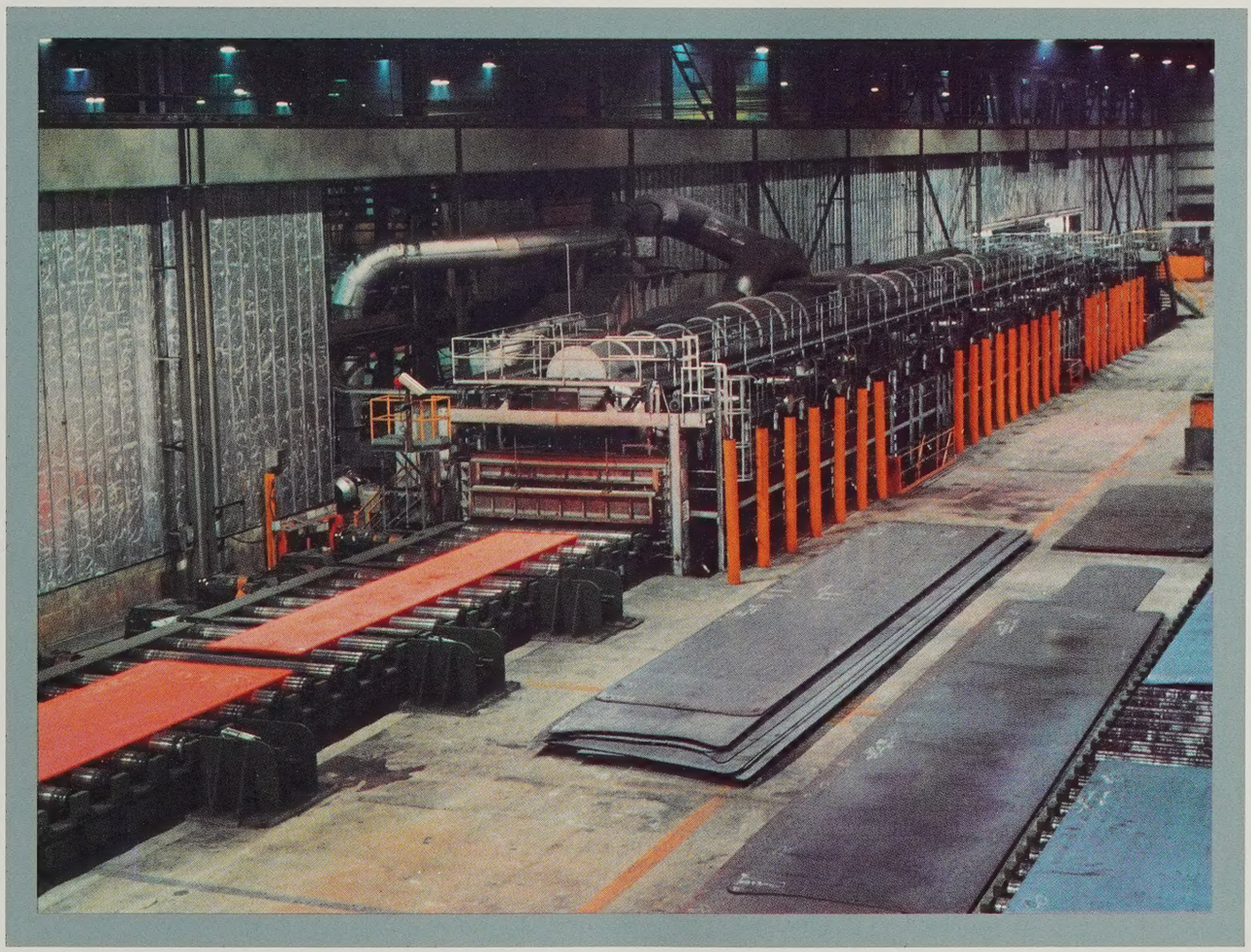
operation and is the Corporation's other proven source of iron ore supply.

At the Steelworks, construction of a new $160 million coke oven battery, incorporating the most modern operating and emission control technology, will assure sufficient total cokemaking capacity for at least 4 million tons of annual raw steel production even after two existing batteries are retired from service. Construction will commence following demolition of one of the existing batteries and production is scheduled for mid-1984.

The blast furnace modernization and reline programs of 1980 and 1981 are expected to ensure an adequate supply of hot metal uninterrupted by blast furnace relines for approximately three years. Blast furnace productivity will be increased and iron quality improved by desulphurizing hot metal in a new plant commissioned in 1981. The ability to consistently produce low sulphur hot metal will result in improved ingot and continuously cast steel quality.

Attention in steelmaking will be directed to No. 1 basic oxygen steelmaking shop which has produced a total of 23 million tons of steel since it was brought into service in 1958 as one of the first basic oxygen steelmaking plants in North America. This facility now requires modernization or replacement to reduce raw steel production costs and achieve performance competitive with shops of more recent vintage, such as Algoma's No. 2 basic oxygen steelmaking shop. Engineering is in progress to examine alternatives and finalize a strategy that will increase annual raw steel capability to 5 million tons and maintain Algoma's traditional position among North America's low cost steel producers.

Output from the new continuous slab



New plate heat treating facility in operation.

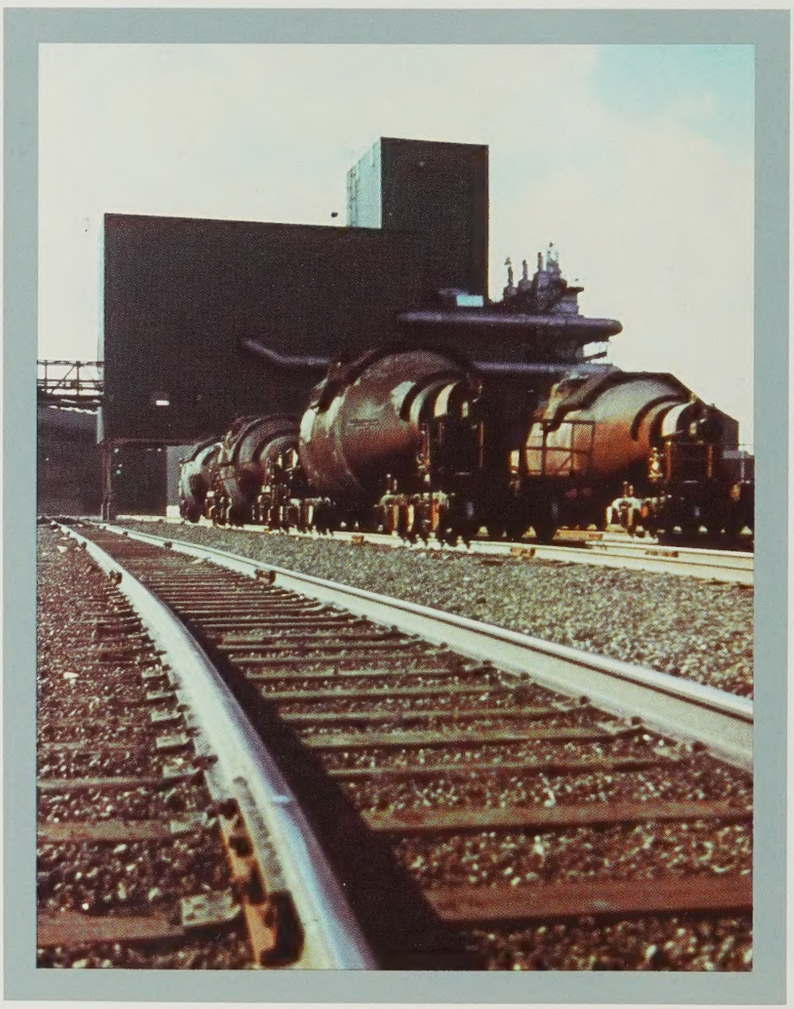
casting plant has increased steadily and ultimate production is expected to exceed the one million ton designed annual capacity. The bloom and beam blank continuous casting plant, which commenced production in 1967, has been operating near its rated capacity and additional bloom or round continuous casting will be required to meet the increasing demand for rails, structurals and seamless tubulars. The preliminary engineering layout for new steelmaking facilities makes provision for a new bloom or round caster which would improve yield, quality and operating efficiency and move Algoma towards its objective of continuously casting at least 70 percent of raw steel production by the end of this decade.

The rolling mill programs are designed to increase capacity of Algoma's major product lines, while retiring mills that are becoming obsolete. The new slab reheating furnace and strip mill coil box, which are scheduled to be in operation by mid-1982, will improve quality, yield, product range and productivity of the plate and strip mill complex. The new plate heat treating facility adds normalized and quenched and tempered plate to the expanding list of Algoma rolled steel products. Plate finishing and shipping capacity is being increased by building and equipment additions now underway.

The on-going rail and structural mill construction program will increase capacity by modifying equipment to permit processing of incremental tons of wide flange and structural sections and rails. Preliminary engineering has been completed for a new mill which initially would produce tube rounds, followed by wide flange shapes and eventually rails. The first phase would provide immediate benefits in tube round production from continuously cast steel and would make available existing reheat furnace and mill capacity for rolling additional plate, wide sheet and structural products. The second and third phases would broaden the range of shaped products, provide a major increase in rail and structural production capacity and permit retirement of mills that are approaching obsolescence.

Construction has proceeded as planned on the new seamless tube mill. Trial rollings are scheduled for the third quarter of 1983 and production is expected in early 1984. The new mill, incorporating the most advanced technology available, will double seamless tube production capacity and expand Algoma's product range to include casing, tubing and drill pipe in tubular sizes from 1.9" to 13 3/8" diameter. Algoma's reputation as a leader in the supply of quality seamless tubulars will be enhanced and strengthened by the new mill.

The Corporation's commitment to providing a safe and healthy workplace for employees is recognized through spending directed to reduce excess noise, control potentially dangerous substances, improve worker protection and provide better canteen, lunchroom and changeroom accommodation. Capital spending is also underway to improve the environmental quality of air and water discharged from existing and new facilities. A new electrostatic precipitator has eliminated a persistent and highly visible emission from the Steelworks' sinter plant. Equipment under construction will reduce emissions from the



Torpedo ladles of hot metal at the new iron desulphurizing plant.

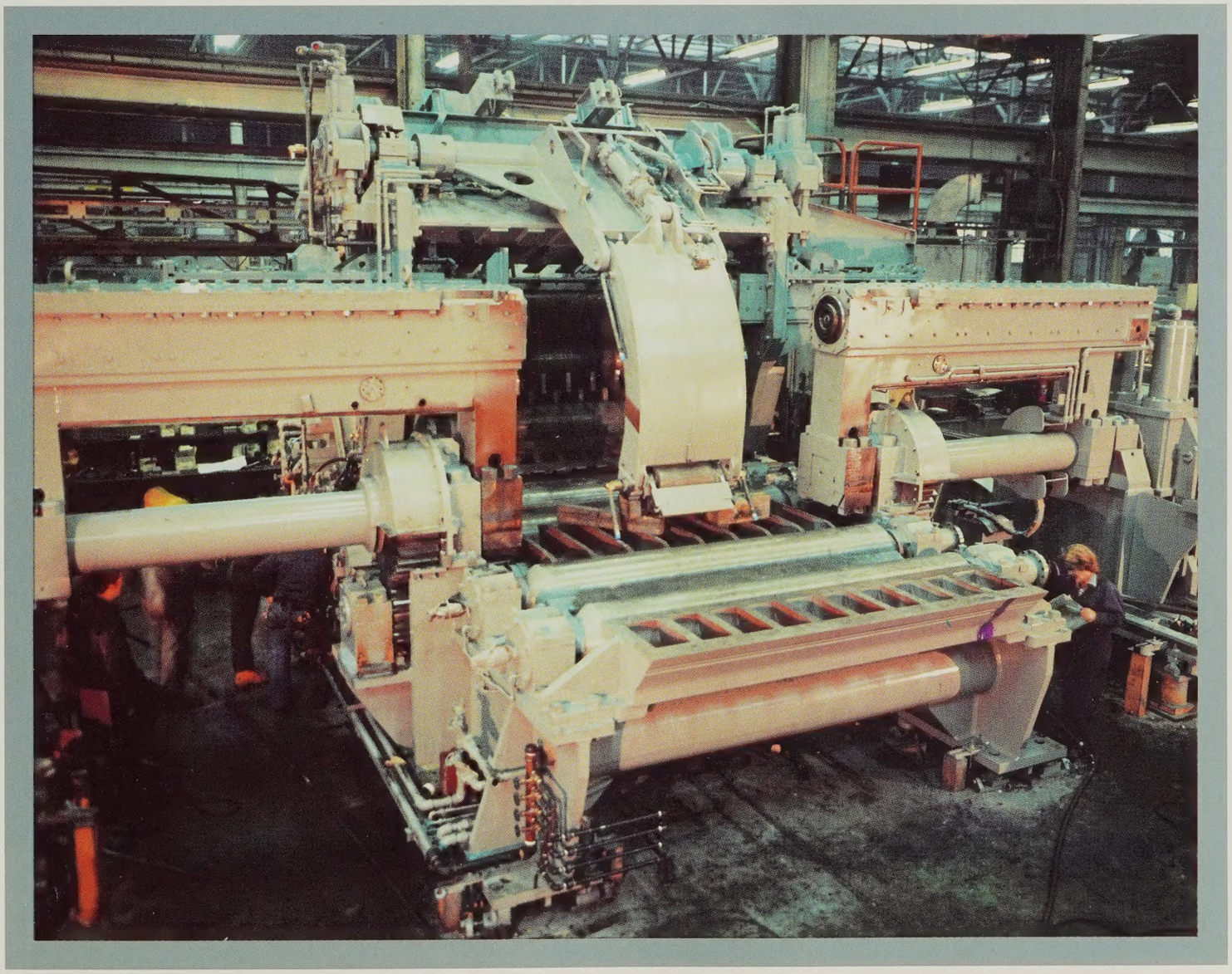
coke plant. Engineering and testing are being directed toward designing additional water treatment facilities to further improve the quality of plant water entering the St. Mary's River.

In combination, the capital projects currently being built, engineered or planned, plus associated computer-control systems and expansion and updating of quality control, utility, transportation and service facilities, will place a heavy demand on corporate funds. The majority of the necessary capital is expected to be generated through internal cash flow. Supplemental debt or equity financing will be put in place as required at the lowest possible cost and in a manner that will maintain Algoma's strong financial position.

Execution of this demanding program to build Algoma's future will require skilled management and dedication of the entire work force. Decisions on capital projects must be made wisely and priorities must be clearly established. Engineering must be creative and competent and construction programs must be managed with maximum efficiency.

Events of the last few years have shown that steel companies cannot stand still and prosper. Changing technology in mining, ironmaking, steelmaking, continuous casting, rolling mills, computer control and steel product specifications demands associated changes in facilities. The steel companies of tomorrow will be those that invest wisely today.

The ambitious program now underway is building Algoma's future. It is this program that will provide security for our shareholders, customers and employees and enhance Algoma's position as a major and progressive Canadian steel producer.



106'' strip mill coil box under construction.

REVIEW OF 1981

Marketing and Sales

Record sales of $1.43 billion were achieved in 1981 despite production restrictions and a depressed world steel market that caused increased imports into Canada. Semi-finished steel was purchased to maintain shipments to customers during the reline of No. 7 blast furnace. The co-operation and support of customers during this difficult period is recognized with appreciation.

World steel consumption remained stagnant in 1981 with no growth from the depressed 1980 level. North American performance was somewhat better, although the United States steel market recovery in the first nine months was followed by a sharp drop in the fourth quarter associated with a declining United States economy.

The very strong order position for Canadian steel, which continued into the third quarter, was prompted by a relatively strong Canadian economy and by inventory build-up in anticipation of possible work interruptions during Canadian steel labour negotiations. The three-day strike that occurred at Algoma in August and the extended strike of a major competitor that began at the same time coincided with a period of sharply rising steel imports and a Canadian economy that was dampened by increasing interest rates and consumer uncertainty. The Corporation's strong shipment performance in the third quarter and into the fourth quarter at a time of high customer inventories and increasing imports was partially attributable to the competitor's strike that removed a large tonnage of domestic steel from the Canadian market.

Export opportunities for Algoma's steel products remained reasonably strong through midyear but softened in the third quarter and fell off sharply in the fourth quarter, particularly in flat rolled products. The decline in export demand reflected a weakening economy in the United States and the impact of offshore steel entering North America at low prices. The withdrawal by the United States Commerce Department of pre-clearance for Canadian steel products entering the United States did not detract from Algoma's ability to service export customers.

Record sales and shipments of seamless tubular products were achieved in 1981 in response to a strong North American demand for oil country tubular goods. The expanded tube heat treating capability permitted increased sales of high strength and special tubular grades to service challenging North American oil and gas drilling applications where Algoma's heat treated casing enjoys a reputation for high quality and exceptional performance.

Completion of the Corporation's new seamless tube mill for first quarter 1984 production will expand the seamless tubular size range and add tubing, drill pipe and an extended line of casing to Algoma's tubular products. The world class technology of the new mill will provide efficient production of superior quality seamless tubulars.

Energy exploration relies on special quality high strength products such as Algoma's heat treated plate and seamless tubulars.

The softening market in the second half did not interfere with rail and structural shipments and Algoma's 30"/50" mill complex worked at full capacity throughout the year. Structural product demand was supported by major Canadian construction projects. Replacement and new track programs in North America provided a steady market for rails.

Supply of shaped products to customers has been a principal strength since Algoma first produced rails in 1902. For 80 years Algoma rails have played an important part in Canada's railway industry. The Corporation's history as a structural supplier began when the first significant quantities of merchant mill and structural products were produced in 1920. Since then, Algoma has become the principal supplier of shaped products to the construction industry.

Market projections indicate that Algoma must expand its rail and structural capacity to meet increased demand and provide required new products to the growing transportation and construction industries. Incremental mill expansion that has occurred over the last two years will continue during 1982, but the need for major expansion of rail and structural mill capacity is recognized. The new mill presently being engineered would provide the quantity and quality of rail and structural products required to meet customers' future needs. A decision on this major project is expected in 1982.

The welded beam plant previously operated for Algoma by Dominion Bridge and acquired in 1981 will fabricate structural shapes beyond the rolling mill product range and provide special beams of non-standard dimensions. The combined rolling mill and welding capability makes available a full

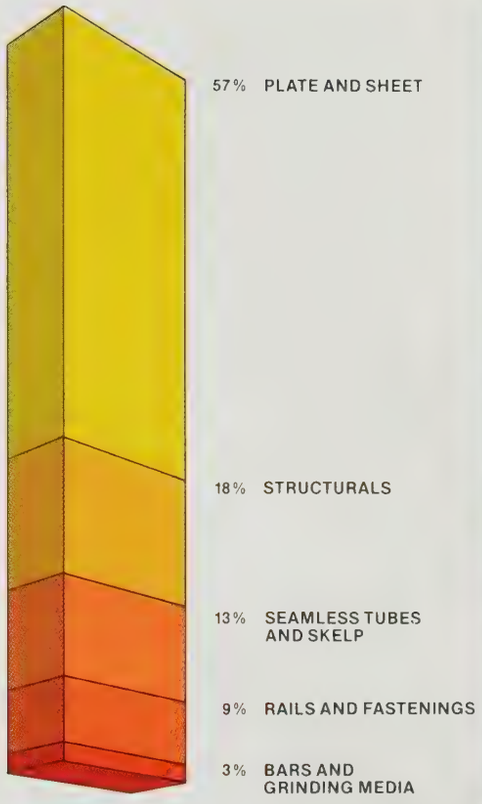
Algoma has a wide variety of structural shapes available to the construction industry.

range of shaped products to Algoma customers.

Demand for Algoma's plate products remained strong through the end of 1981 but began to moderate in early 1982. A major 1981 development was the introduction in May of the first product of its kind to be supplied by a Canadian steel company. Normalized heat treated plate is required for special quality applications in pressure vessels, ships, storage tanks, offshore drilling platforms and other high performance end uses. Quenched and tempered heat treated plate, which will be available in early 1982, is used where extra high strength and abrasion resistance are required.

Additional shipping and plate finishing facilities currently under construction will permit the Corporation to better serve the projected increased demand for plate. Participation in on-going engineering programs will keep Algoma abreast of the need for special steels to meet demanding Arctic and nuclear plate applications. The combination of expanded facilities and new technology will maintain Algoma's leadership as a proven supplier of a full range of plate products.

Shipments of hot rolled sheet increased in 1981 over the previous year reflecting Algoma's favourable performance in a very weak market dominated by declining automotive and consumer durable production and sales. The automotive industry remains one of Algoma's important customers and through selective market participation and emphasis on Algoma's high strength steel technology, automotive related hot rolled sheet shipments were increased in 1981. Algoma's stable performance in the highly competitive sheet market has been achieved through emphasis on wider and proprietary



ALGOMA'S STEEL PRODUCT SHIPMENTS BY PRODUCT CLASSIFICATION, 1981

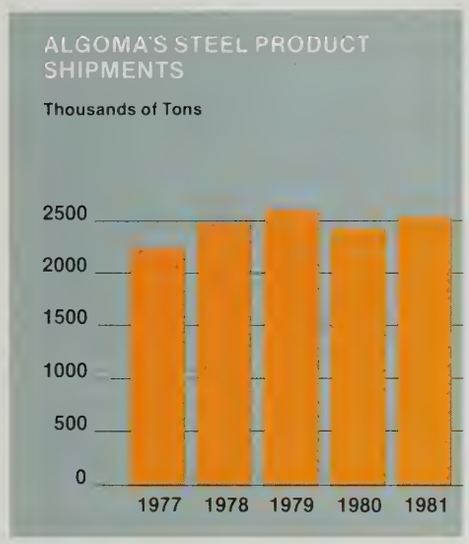
Algoma's hot rolled sheet, up to 8 feet wide, is used in these large corrugated highway structures.

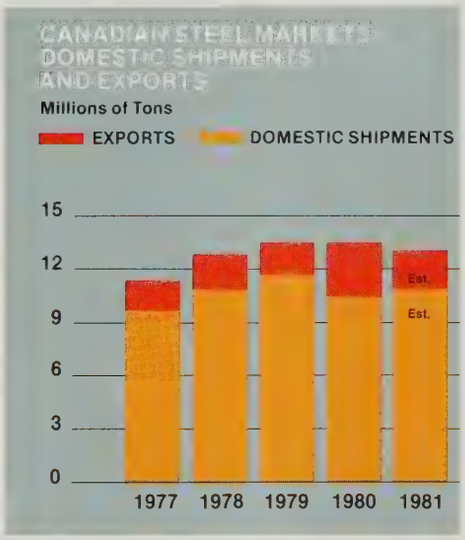
widths, heavy coils and flexibility in servicing the market. Addition of the 106" mill coil box by mid-1982 will further enhance Algoma's ability to competitively supply the hot rolled sheet market.

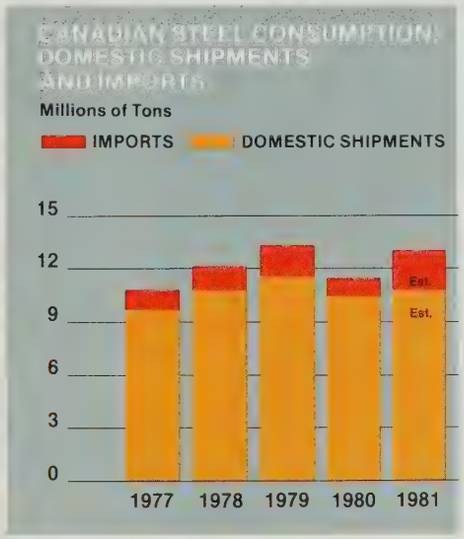
The surge of low priced steel imports into Canada from countries with excess capacity or with subsidized steel industries caused an unhealthy accumulation of inventories that threatened to disrupt the domestic market. Continuing vigilance by the federal government on monitoring of steel products entering Canada and prompt investigation of suspected dumped or subsidized imports is important to Algoma and to the Canadian steel industry.

The softness in the North American economy experienced during the latter part of the year is expected to continue into the second quarter of 1982 and possibly beyond. Oil and gas exploration and other energy related developments should provide a strong market for tubular goods and a reasonable market for heavy plate and structural products. Improved demand for sheet products will only occur with recovery of the automotive industry, which is unlikely in the first half of 1982.

The low and declining level of economic activity in Canada and the United States and continuing excess world steel production capacity will result in very competitive 1982 steel markets. The Corporation's product mix is well suited to satisfying the increasing requirements of the capital spending sector as well as servicing regular customers in the consumer market. Performance in the market environment of the 1980's will benefit from this strategically advantageous product mix and from continuing and increased emphasis on providing a high standard of service to traditional and potential new customers.







Raw Materials

Raw material demand decreased in 1981 because of planned major rebuilds and repairs to cokemaking and ironmaking facilities. Iron ore delivered to the Steelworks totalled 4.0 million gross tons compared with 4.2 million gross tons in 1980. Metallurgical coal deliveries were 2.5 million tons versus 2.2 million tons in 1980.

Pellet production at the Tilden Mine in Michigan totalled 7.3 million gross tons, of which 2.2 million gross tons were available to Algoma through its 30 percent ownership participation. Process and equipment modifications at Tilden contributed to a generally improving trend in product quality, yield, production efficiency and cost. Research programs underway have identified further opportunities for improvement which will be pursued as technology is developed and evaluated.

At the Algoma Ore Division, approximately one-half of the ore required for the 1.46 million gross tons of sinter production came from the newly developed Stage IV of the MacLeod Mine. The Stage IV program has now been completed and is fully operational other than for on-going development required for the normal progression of mining operations.

A research program was initiated to examine opportunities for achieving an improvement in Algoma sinter quality through reduction in contained waste material and resulting increase in iron content. Work also began on a comprehensive study to evaluate best known world technology for removal of contaminants from the sinter plant stack gases.

Coal production at Cannelton Industries, Inc. was only slightly lower than in 1980 despite a 72-day strike by the United Mine Workers of America during negotiation and ratification of a new 40-month collective wage agreement with the Bituminous Coal Operators' Association. Metallurgical coal production of 2.12 million tons was considerably below the 2.55 million tons produced in 1980, but steam coal production of 611,000 tons was well above the 367,000 tons produced in the prior year.

Coal sales by the Corporation included 370,000 tons of metallurgical coal and 585,000 tons of steam coal. A shortfall in high volatile metallurgical coal required by the Steelworks, which resulted from the United Mine Workers strike, was made up by the purchase of 443,000 tons of coal on the spot market.

The increased tonnage of steam coal produced for sale came from Kanawha surface mine operations and from a successful new mine that was developed to evaluate mining conditions and coal quality of an underground steam coal reserve. The underground steam coal mine is being further developed for increased production, and construction is in progress to provide improved facilities for mine service, coal transportation and worker accommodation. The barge loading facility constructed on the Kanawha River provides for efficient barge transportation of coal to United States customers. A market survey has indicated excellent potential for increasing annual sales to at least one million tons of low sulphur high quality Cannelton steam coal.

Adjustments and modifications to the new

Tilden Mine pellet plant in upper Michigan.

Indian Creek coal preparation plant resulted in increased capacity, improved metallurgical coal quality and reduced production costs. The plant has demonstrated its capability to work at a rate that would produce its designed annual output of one million tons of metallurgical coal and Indian Creek production is limited only by underground mining capacity. A study is underway to evaluate potential for adaptation of longwall mining technology to one of the Indian Creek underground mines. Utilization of longwall mining should substantially increase production capacity and decrease costs.

Production at the Maple Meadow and Pocahontas low volatile mines was limited by the inability to sell surplus coal at prices that were acceptable. Delivery of Maple Meadow coal under a long term sales contract was restricted to 70 percent of the annual contractual tonnage through imposition of force majeure by the customer.

Closure of a Kanawha metallurgical coal underground mine was necessitated by unacceptable costs in an area where reserves were approaching exhaustion. Studies are in progress to evaluate potential for acquisition of additional high volatile metallurgical coal reserves to supplement Kanawha and Indian Creek reserves and maintain Algoma's traditional long term raw materials strength.

The successful program for research, evaluation and improved utilization of raw materials to efficiently produce better quality coke and iron was continued in 1981. Additional studies are planned for 1982 to examine methods of further improving raw material utilization to the benefit of Steelworks' operations and the Corporation as a whole.

Cannelton's new Kanawha River steam coal barge loading facility.

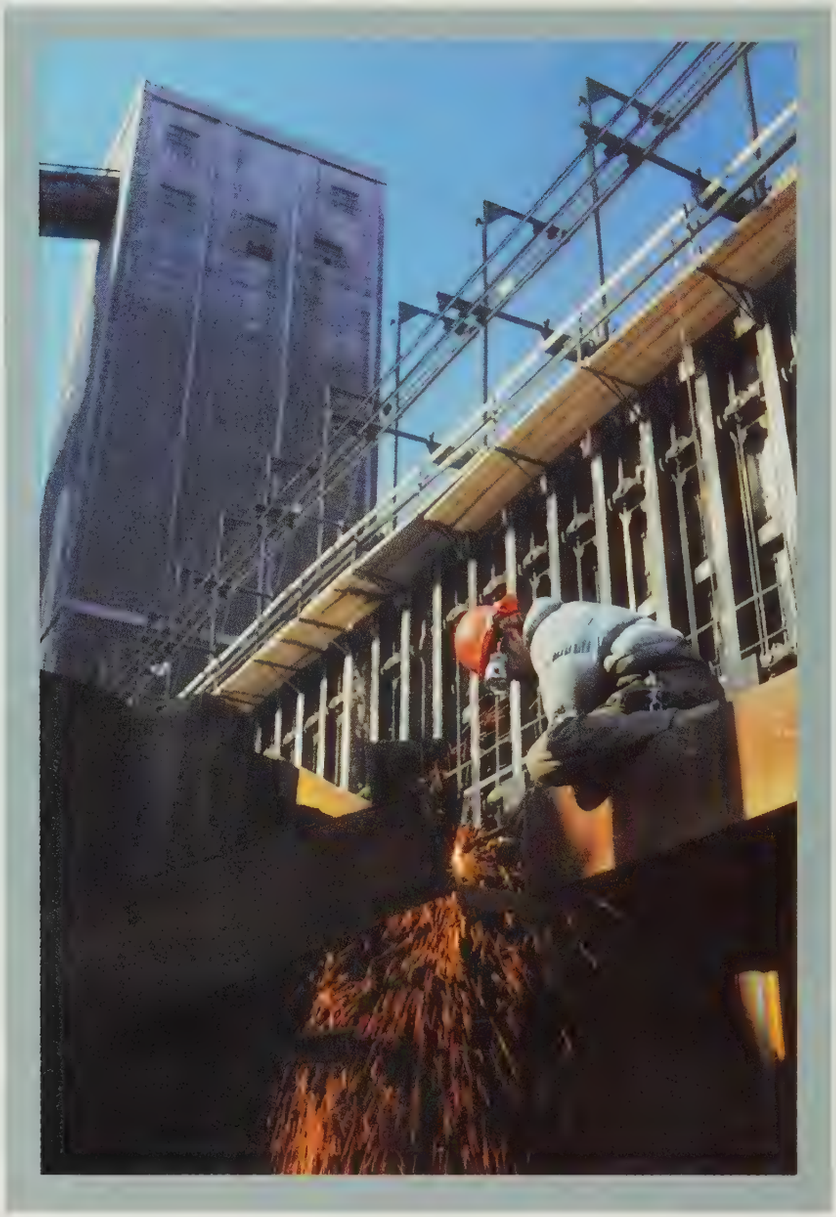
Manufacturing Operations

Construction workers at the Steelworks and Tube Divisions totalled as many as 2,500 during peak construction periods of 1981. Construction and major repair projects impacted almost every manufacturing area with resulting inconvenience and potential disruption for on-going operations. The performance achieved in 1981 under these difficult conditions is evidence of the ingenuity and dedication of the many Algoma employees involved.

Planned repairs to No. 8 coke oven battery and major renovation and modernization of No. 7 blast furnace restricted coke, iron and raw steel production to 1.41, 2.91 and 3.02 million tons respectively; the lowest levels since 1977. The three blast furnaces that operated during the 134-day reline of No. 7 blast furnace achieved record iron production which permitted higher than planned raw steel production rates to be maintained during the period of restricted iron supply.

The blast furnace reline programs of 1980 and 1981 have completed renovation of Algoma's three largest blast furnaces and no further relines are planned until late 1984. Modifications to the refractory lining and cooling system of No. 7 blast furnace are expected to extend its normal campaign life by about 25 percent.

A three-day strike occurred on August 1st prior to ratification of a new labour agreement with Local 2251 of the United Steelworkers of America, causing shut-down of all Steelworks and Tube Division operations. Management personnel maintained essential services and protected equipment during the strike period. A refractory failure in a steelmaking vessel that delayed start up after the strike was evidence that forced total shut-down



No. 8 coke oven battery modifications underway.

of a steelworks cannot be achieved, even for a short period of time, without risk to equipment and on-going operations.

The new hot metal desulphurizing plant commissioned in September permitted improved and more consistent quality iron to be delivered to steelmaking with a consequent improvement in steelmaking operations. The increasing proportion of continuously cast steel, which reached 1.1 million tons or 37 percent of raw steel production in 1981, requires the availability of low sulphur steel to achieve maximum yield and quality benefits from the expanding range of continuously cast steel products.

Semi-finished steel totalling 285,000 tons was purchased to supplement the reduced 1981 raw steel supply and maintain rolling mill production and shipments. Steel product shipments of 2.52 million tons were higher than the 2.42 million tons shipped in 1980 and only marginally below the record 1979 tonnage. The program for sourcing, scheduling, handling and controlling purchased steel was successfully co-ordinated with minimum disruption considering the complex logistics involved. Some deterioration in shipment reliability was experienced but programs were in place by year end to reduce delinquency and restore reliability.

Rehabilitation of the 46" slabbing mill, co-ordinated with the period of reduced steel production, caused considerable difficulty in maintaining an adequate slab supply for the rolling of plate and strip during the 45-day mill repair period. Nevertheless, combined annual production of the 166"/106" plate and strip mill complex exceeded 1980 production and was close to the record 1979 performance. Successful commissioning of the new plate heat treating facility permitted

No. 7 blast furnace was relined and modernized in 1981.

production of normalized plate in the second quarter and trial production of quenched and tempered heat treated plate was achieved by year end.

Modification of 30"/50" rail and structural mill equipment and installation of new equipment to provide for an incremental increase in rail and structural production capacity caused some interference with mill operation and restricted production and shipments to approximately the 1980 levels. A major improvement in reheat furnace fuel efficiency was achieved through implementation of revised control and operating procedures.

The welded beam plant in Sault Ste. Marie, acquired from Dominion Bridge Company, Limited, will be operated as Algoma's Welded Beam Division. Co-ordination of plate supply and beam fabrication under Algoma's direction is expected to provide benefits in the efficiency of welded beam production.

46" slabbing mill housings replaced during mill rehabilitation program.

Seamless tube production was again at maximum capacity and improvements were achieved in productivity, quality and yield. The record tube mill production and shipment performance was accompanied by a substantial increase in the tonnage of high strength tubes that was processed through the recently expanded heat treat facilities.

Construction of the No. 2 seamless tube mill immediately adjacent to the operating mill was carried out with minimum production interference. Closing in of the 480,000 square foot new tube mill building was substantially complete by year end and remaining construction and equipment installation can proceed without disruption of existing tube mill operations.

The new 75 oven, five-metre coke oven battery to be constructed commencing in 1982 will be located in the area presently occupied by an existing four-metre battery containing 57 ovens which will be demolished. It is expected that coke in inventory at the time construction begins plus coke production from the remaining batteries will be sufficient to satisfy coke requirements at projected ironmaking production rates during the two and a half year construction period.

The combined efforts of operations, research, engineering and construction personnel which were instrumental in achieving the successful start up of new facilities will be even more important in the future. The demanding construction program of the 1980's will require close co-ordination of innovative engineering, sound technical knowhow and practical operating experience to design, build and successfully start up new plant and equipment in a manner that will consistently achieve maximum benefit at lowest practical cost within a minimum time frame.

Environment

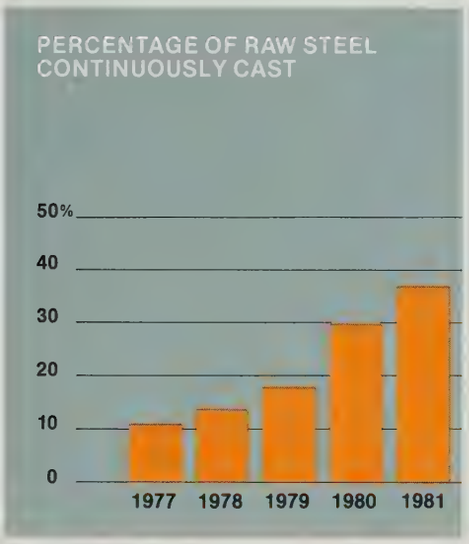
Environmental control equipment commissioned during the year included an electrostatic precipitator unit to remove contaminants from the Steelworks' sinter plant stack gases, dust collection systems for the sinter plant and for the two No. 1 steelmaking shop hot metal stations and a new filtration plant to improve the quality of water discharged from the blast furnace sludge thickeners. Orders were placed for manufacture of coke plant emission control equipment that is expected to be in operation by late 1982.

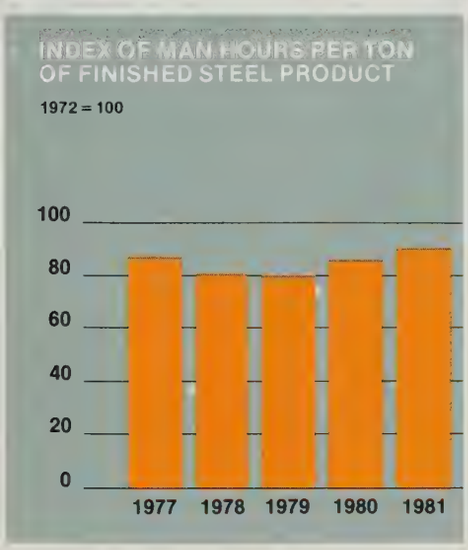
Construction commenced in 1981 on settling basins at two coal mining operations of Cannelton Industries, Inc. designed to clarify preparation plant discharge water and avoid contamination of adjacent waterways. The settling basins are scheduled to be in operation by early 1983.

A revised control order requiring environmental improvements to further reduce Steelworks' emissions and effluents was proposed by the Ontario Ministry of Environment in 1981 and it is expected that the order will be issued in 1982. Several items in the proposed order were completed by the Corporation in 1981 and work will continue, in co-operation with Ontario Government regulatory officials, to achieve other identified improvements.

New mining and manufacturing facilities, presently planned or under construction, incorporate technology and environmental control equipment designed to assure their operation with minimum adverse effect on the environment. Older facilities currently in operation will be progressively modified to incorporate environmental control improvements where technology is available that can be practically applied.

The objective of the Corporation will be to continue its program of environmental improvement on a realistic time scale that recognizes requirements of the Ontario Ministry of Environment and also takes into account the responsibility of Algoma to its shareholders, its employees and the communities in which it operates.





New electrostatic precipitator unit removes contaminants from Steelworks' sinter plant stack gases.

Employee Relations

Labour contract negotiations at United States and Canadian operations did not detract from progress towards Algoma's objective of providing a safe workplace for employees. Coal mining operations of Cannelton Industries, Inc. showed a 24 percent improvement in injury frequency and a 39 percent improvement in injury severity. Injury frequency and severity at iron ore operations of the Algoma Ore Division were slightly higher than in 1980 but performance was favourable by industry standards. Manufacturing operations at Sault Ste. Marie showed a 20 percent improvement in injury frequency and a 25 percent improvement in severity compared with the prior year.

The improvements in safety were attributable to the combined efforts of union employees, their representatives and management personnel who worked together to achieve the significant 1981 gains. Joint union-management programs established in co-operation with union representatives provided vehicles for worker discussion and participation in identification of safety concerns and implementation of corrective action.

Modern welfare facility under construction to accommodate Algoma employees.

Labour negotiations for employees of Cannelton Industries, Inc. were carried out as part of the national bargaining between representatives of the United Mine Workers of America and the Bituminous Coal Operators' Association. For the fifth time in succession, the parties were unable to reach an agreement that could be ratified prior to termination of the previous contract. A 72-day strike interrupted Cannelton production along with that of most United States coal mines where employees were represented by the United Mine Workers. The high cost of the strike to Cannelton and its employees prior to ratification of a new 40-month agreement emphasizes the need for a change in the United States coal mining industry negotiation process. The alternative can only be a further deterioration in the cost competitiveness of United States coal.

Negotiations with United Steelworkers of America Local 2251, representing production and maintenance workers at the Steelworks, resulted in a memorandum of agreement being reached prior to expiry of the previous agreement but with insufficient time to allow for ratification by the union membership. Picket lines were formed at the Steelworks commencing August 1 and work did not resume until August 4 following a favourable vote on the new three-year agreement.

Negotiations with United Steelworker bargaining units at the Steelworks, Tube and Algoma Ore Divisions were carried on concurrently and for the first time representatives of the other steelworker locals participated in Local 2251 negotiation sessions as observers. The pattern that emerged from the principal negotiation was translated into settlements with all other locals that were ratified by the respective employee groups prior to the end of August. Similar settlements were also negotiated with the transportation and bricklayer unions.

Programs implemented to protect employees from job-related health hazards were expanded in 1981 to include pre-employment physical strength testing and routine medical monitoring of employees with identified health problems. Other programs receiving attention included periodic examination of employees involved in the use or handling of toxic materials, expanded health education and counselling and increased emphasis on hearing and vision protection.

Industrial hygiene activity was accelerated, and workplace monitoring and assessment projects for the next several years were prioritized in co-operation with the joint union-management industrial hygiene and health and safety committees. The hazardous material control program was improved through the identification and cataloguing of potentially hazardous materials and the formalization of safe handling procedures.

Programs to provide trained Algoma employees for anticipated future needs included formal education of Algoma people ranging from trade apprentices to senior managers. Internal training programs were

supplemented by recruiting programs designed to satisfy additional needs through attraction of employees with required educational qualifications and skills.

Post-secondary educational assistance programs included the Sir James Dunn scholarships, available to sons and daughters of Algoma employees planning to attend university, and the Algoma Steel Technology Bursaries, awarded to students in Sault Ste. Marie and the surrounding area who plan to attend an Ontario community college. Algoma supported the organization of a Master of Business Administration program at Lake Superior State College in Sault Ste. Marie, Michigan, to provide employees and other area residents with an opportunity to upgrade their management skills.

Recreational activities were again promoted by Algoma through one of the most active industrial recreation programs in Canada. Financial and administrative support provided by the Corporation and the important contribution of dedicated employee volunteers permitted organization of various activities and leagues involving a record 2,700 employees. A new golf league attracted some 325 Algoma participants.

Acquisition of the welded beam plant in Sault Ste. Marie brought 80 former Dominion Bridge employees into Algoma's work force. The union members within this employee group are represented by Local 2288 of the United Steelworkers of America under a new labour contract which was ratified on February 19, 1982.

Locker room accommodation for employees was further improved and expanded through the construction of new welfare facilities at the Steelworks, Tube and Algoma Ore Divisions and at Cannelton Industries. Food service to Steelworks and Tube Division employees was upgraded by the construction of new canteen buildings.

Algoma's responsibility as a corporate citizen was recognized through a donations program which benefited deserving organizations at the local, provincial and national levels. Communication with employees, the public and governments was an on-going priority and programs designed to achieve improved communication were refined and expanded during the year.

The high level of wages and benefits that resulted from United States and Canadian labour negotiations emphasized the importance of managing Algoma's affairs to efficiently utilize the working time of each Algoma employee. The Corporation's 1981 employment costs increased to $440 million and were again the largest single cost component. The table below sets out the main employment cost elements.

Millions of Dollars	1981
Wages and salaries	
for time worked	$328
for vacation and statutory holidays	37
Supplementary employment costs	
pensions	39
group insurance plans and other benefits	21
unemployment insurance	5
workmen's compensation	10
Total	**$440**

Employee training session in progress.

New canteens provide improved food service to employees.

Profitability and Finance

Net earnings of $165.0 million and earnings per common share of $10.85, after preference share dividends, were records and were $55.7 million and $2.64 greater than in 1980. The return on sales, return on common shareholders' equity and return on total investment were 11.6 percent, 18.8 percent and 13.6 percent, respectively, compared with 9.5 percent, 14.8 percent and 11.0 percent in the prior year.

Sales of $1.43 billion were up 24 percent which was attributable to higher steel selling prices, increased volume, and the sale of higher value steel products. The low value of the Canadian dollar relative to the United States dollar increased sales return and helped maintain Algoma's favourable competitive position in both domestic and export markets.

Increased overall sales and an improved gross margin on sales of 21.8 percent, compared with 18.8 percent in 1980, resulted in an almost doubling of pretax earnings. The following table compares pretax earnings by quarter for the past three years.

Quarter Millions of Dollars	**1981**	1980	1979
1	**$ 48.7**	$ 24.2	$ 22.2
2	**69.5**	35.0	36.3
3	**47.5**	15.7	29.9
4	**60.1**	46.3	31.8
	$225.8	$121.2	$120.2

Taxes on income rose from $38.8 million in 1980 to $87.6 million in 1981 due to the higher pretax earnings and an increase in the effective tax rate from 32.0 percent to 38.8 percent.

Algoma's 43 percent interest in AMCA International Limited resulted in equity earnings of $26.8 million, including an exchange loss of $8.6 million from balance sheet translation. The table below compares Algoma's equity share of AMCA's quarterly earnings.

Quarter Millions of Dollars	**1981**	1980	1979
1	**$ 7.1**	$ 7.4	$ 3.7
2	**8.4**	3.4	4.2
3	**6.3**	4.8	6.1
4	**5.0**	11.2	13.0
	$26.8	$26.8	$27.0

The Canadian Institute of Chartered Accountants has not yet revised foreign currency translation rules and the financial statements of the Corporation's United States subsidiaries are consolidated on the basis of United States and Canadian dollars being of equal value. If these subsidiaries' financial statements were translated to the actual Canadian dollar equivalent, using historical rates to translate non-current assets and long term liabilities and current rates for other assets and liabilities, there would be no material affect on the consolidated results of the Corporation in 1981 or in past years.

Cash flow from integrated steel operations, the measure of internally generated funds, increased to $255.7 million from $170.0 million in 1980, an increase of $85.7 million or 50 percent.

Reheat furnace under construction in the new seamless tube mill.

In addition, the Corporation received dividends from AMCA International Limited amounting to $13.7 million, a 19 percent increase over the $11.5 million received in 1980. The high level of cash flow permitted the financing of Algoma's capital expenditures, dividend and operating working capital requirements without issuing new debt.

Capital expenditures in 1981 totalled a record $264.7 million, more than double the $107.2 million spent in 1980. Of this, $246.6 million was spent on manufacturing facilities and $18.1 million at mining operations. Major expenditures included $87.6 million spent on the new seamless tube mill and $40.3 million for the capital portion of No. 7 blast furnace reline.

The estimated amount of capital expenditures authorized by the Board of Directors and remaining to be spent at the end of 1981 amounted to $463 million. It is estimated that 1982 planned spending will include $134 million for the new tube mill and $52 million for the No. 11 coke oven battery.

Working capital decreased slightly in 1981 to $372.8 million from $405.0 million in 1980. Changes in the major components of working capital included a $77.4 million reduction in cash and short term investments, an addition of $63.3 million in accounts payable and increases of $74.2 million in inventory and $48.7 million in accounts receivable.

The ratio of current assets to current liabilities was 2.6 to 1 at year end and the quick ratio was 0.9 to 1, compared with 3.6 to 1 and 1.5 to 1, respectively, at the end of 1980.

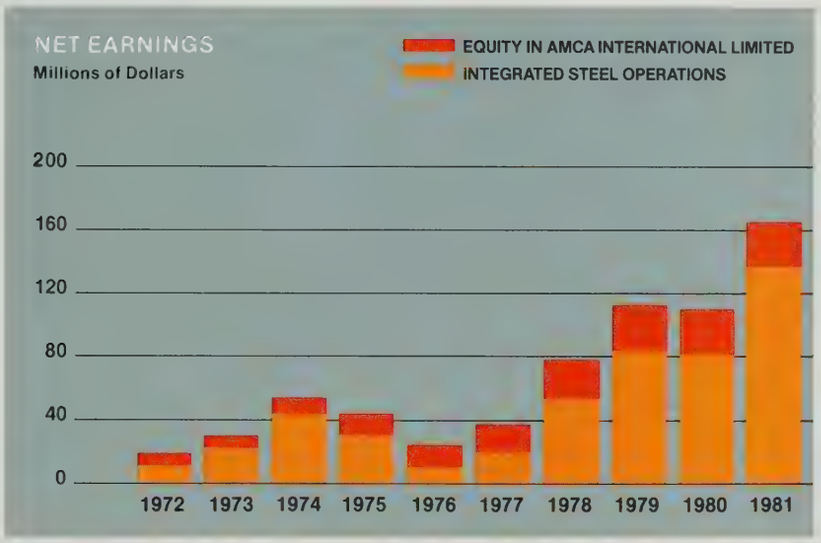
Total assets increased by 21 percent to $1.72 billion. The increase was due mainly to a 36 percent increase in net fixed assets. Total investment, measured as total assets minus current liabilities, increased by 17 percent from $1.26 billion in 1980 to $1.48 billion in 1981. Long term debt decreased from $293.7 million in 1980 to $290.6 million in 1981, representing 22.3 percent of total capitalization compared with 25.1 percent a year ago.

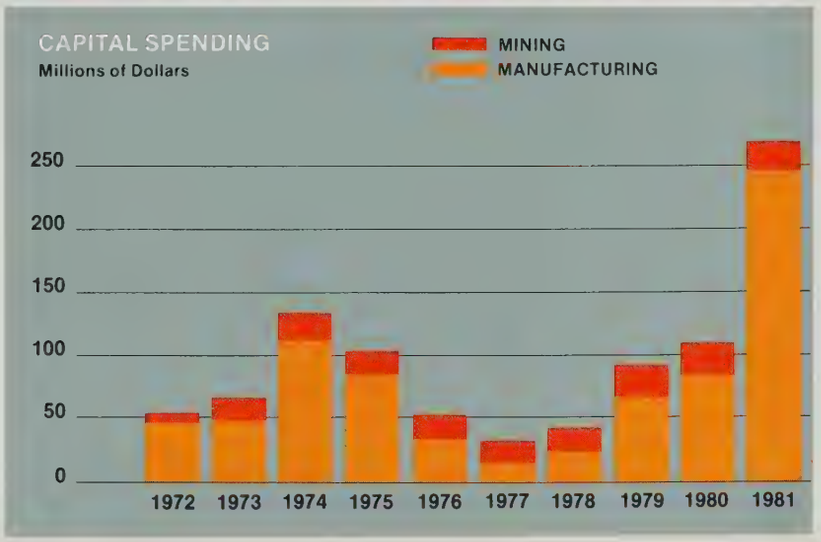
The price of Algoma's common shares increased from $37 3/4 at December 31, 1980 to $44 3/8 at the end of 1981. The following table shows the quarterly highs and lows for common shares traded on the Toronto Stock Exchange during the year.

Quarter	High	Low
1	$48 3/8	$37 1/4
2	49 1/4	43
3	48 1/8	39
4	45 3/4	40

The Corporation's major shareholder, Canadian Pacific Enterprises Limited of Montreal, owned 57.6 percent of Algoma's outstanding common shares at year end. Dividends paid on common shares totalled $15.4 million or $1.10 per share.

Charts showing net earnings per common share and common share price movement in the past 11 years are included at the back of this annual report and statistical data for the 10 years 1972 to 1981 are shown on pages 32 and 33.





Earnings and Retained Earnings

FOR THE YEARS
ENDED DECEMBER 31

Thousands of Dollars	1981	1980
Income		
Sales	**$1,426,434**	$1,149,079
Interest and other income	**21,811**	3,724
	1,448,245	1,152,803
Expenses		
Cost of products sold	**1,116,005**	932,617
Administrative and selling	**26,029**	22,758
Interest and expense on long term debt	**29,816**	27,548
Interest on short term loans	**893**	1,348
Depreciation and amortization	**49,686**	47,335
	1,222,429	1,031,606
Earnings before income taxes and equity earnings	**225,816**	121,197
Income taxes — deferred (note 2)	**87,600**	38,800
Earnings before equity earnings	**138,216**	82,397
Equity in earnings of associated company (note 4)	**26,754**	26,851
Net Earnings	**$ 164,970**	$ 109,248
Provision for dividends on preference shares	**$ 12,758**	$ 11,598
Net earnings applicable to common shares	**$ 152,212**	$ 97,650
Per common share	**$ 10.85**	$ 8.21
Retained Earnings		
Balance at beginning of year	**$ 651,494**	$ 566,357
Net earnings	**164,970**	109,248
Dividends declared (note 11)	**(28,042)**	(23,908)
Expenses relating to issue of common shares, net of income taxes	**—**	(203)
Balance at end of year	**$ 788,422**	$ 651,494

See notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Financial Position

AS AT DECEMBER 31

Thousands of Dollars	1981	1980
Current Assets		
Cash and short term investments, at cost (approximates market)	**$ 7,800**	$ 85,153
Accounts receivable	**203,994**	155,277
Inventories (note 3)	**390,448**	316,252
Prepaid expenses	**6,339**	5,463
	608,581	562,145
Current Liabilities		
Bank overdraft	**11,966**	—
Accounts payable and accrued liabilities	**210,780**	147,470
Taxes payable	**13,026**	9,722
	235,772	157,192
Working Capital		
Current assets less current liabilities	**372,809**	404,953
Other Assets		
Non current account receivable	**1,000**	1,000
Long term investments (note 4)	**227,267**	212,141
Net fixed assets (note 5)	**879,504**	644,798
Unamortized debenture expense	**1,833**	1,986
	1,109,604	859,925
Total Investment		
Working capital plus other assets	**1,482,413**	1,264,878
Other Liabilities (note 7)		
Long term debt (note 8)	**290,579**	293,734
Accrued past service pension cost (note 9)	**9,915**	10,806
Deferred income taxes	**170,428**	82,775
	470,922	387,315
Excess of total investment over other liabilities	**$1,011,491**	$ 877,563
Commitments and Contingencies (notes 2, 6 and 9)		
Shareholders' Equity		
Capital stock (note 10)		
Preference shares	**$ 133,530**	$ 136,530
Common shares	**89,539**	89,539
Retained earnings	**788,422**	651,494
	$1,011,491	$ 877,563

See notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31

Thousands of Dollars	1981	1980
Source of Working Capital		
Operations		
Net earnings	**$164,970**	$109,248
Equity in undistributed earnings of associated company	**(13,013)**	(15,359)
Other items included in earnings not resulting in an outlay or receipt of funds	**117,443**	87,558
	269,400	181,447
Proceeds from long term loans	**—**	35,000
Proceeds from issue of common shares	**—**	76,804
Other	**489**	2,245
	269,889	295,496
Application of Working Capital		
Additions to fixed assets		
Manufacturing plants	**246,636**	82,374
Raw material properties	**18,054**	24,820
	264,690	107,194
Additions to long term investments	**2,157**	—
Reduction of long term debt	**3,155**	39,891
Preference shares purchased for cancellation	**3,000**	3,283
Dividends declared	**28,042**	23,908
Other	**989**	875
	302,033	175,151
Working Capital		
Increase (decrease) during year	**(32,144)**	120,345
Balance at beginning of year	**404,953**	284,608
Balance at end of year	**$372,809**	$404,953

Changes in Working Capital

Current Assets Increase (Decrease)		
Cash and short term investments	**$(77,353)**	$ 73,346
Accounts receivable	**48,717**	15,491
Inventories	**74,196**	38,042
Prepaid expenses	**876**	(198)
	46,436	126,681
Current Liabilities Increase (Decrease)		
Bank overdraft	**11,966**	(7,030)
Accounts payable and accrued liabilities	**63,310**	10,851
Taxes payable	**3,304**	2,515
	78,580	6,336
Working Capital		
Increase (decrease) during year	**$(32,144)**	$120,345

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies and significant inter-company transactions are eliminated. Assets, liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were translated to the actual Canadian dollar equivalent, using historical rates to translate non current assets and long term liabilities, there would be no material effect on these financial statements. The investments in the associated company, AMCA International Limited (formerly Dominion Bridge Company, Limited), and in the cost sharing Tilden Mine joint venture producing iron ore pellets are accounted for by the equity method.

INVENTORIES

Finished products and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

FIXED ASSETS

Property, plant and equipment are recorded at cost. Expenditures for improvements and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to earnings as incurred excepting expenditures on periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of manufacturing plant and equipment, which comprises over 80% of fixed assets, is provided using the straight-line method applied to the cost of the assets based on their estimated useful composite life of approximately 20 years and beginning when they commence operation. Plant and equipment at raw material properties and mine development costs are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Interest incurred on funds borrowed to directly finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

EXPLORATION, RESEARCH AND START UP EXPENSES

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research and start up of new production facilities are charged to earnings as incurred.

INCOME TAXES

Income taxes are provided for on the deferred tax allocation basis. Since regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not correspond with amounts recorded for financial reporting, income taxes charged to earnings may differ from those currently payable. Income taxes charged to earnings, in excess of those currently payable, are shown as deferred income taxes in the financial statements.

Investment tax credits are recorded in the accounts in the year for which they are claimed for tax purposes. Since these tax credits increase taxable income of future years by lowering the value of depreciable assets for taxation purposes by the amount thereof, a portion, determined at the current tax rate, is set aside as deferred income taxes. The balance is applied to reduce income taxes charged to earnings.

2. Income Taxes

The income tax provision is reduced by utilization of depletion, resource and inventory allowance deductions and investment tax credits in determining income taxes. In 1981 the reduction was $20.7 million. Unused investment tax credits available for reduction of income taxes in the statement of Earnings in the years 1982 to 1996 amount to $53.1 million at December 31, 1981.

Revenue Canada has issued reassessments relating to earned depletion which would increase the Corporation's deferred income tax provisions for the years 1975 and 1976 and the basis for the reassessments could have application to subsequent years. Notices of Objection have been filed and representations are being made on this matter. The Corporation and its legal advisors are of the opinion that the Corporation's arguments have merit and that the prospects of successfully opposing the arguments of Revenue Canada are favourable. Accordingly, the potential increase in deferred income taxes for 1975 and 1976 and subsequent years has not been provided for in the financial statements. In the event of an adverse ruling, the income tax provisions for the years 1975 to 1980 inclusive and for 1981 would be increased approximately $8.5 million and $1.2 million respectively.

3. Inventories

Thousands of Dollars	1981	1980
Finished products	**$ 61,505**	$ 44,029
Work in process	**87,086**	88,828
Raw materials and supplies	**241,857**	183,395
	$ 390,448	$ 316,252

4. Long Term Investments

Thousands of Dollars	1981	1980
Associated company	**$ 181,691**	$ 168,677
Joint venture	**43,506**	41,304
Other	**2,070**	2,160
	$ 227,267	$ 212,141

Equity in earnings of the associated company includes an exchange loss of $8.6 million in 1981 and a gain of $2.1 million in 1980 arising from translation of balance sheets of the associated company's foreign subsidiaries into Canadian funds.

5. Net Fixed Assets

Thousands of Dollars	1981	1980
Property, plant and equipment:		
Manufacturing plants	**$1,196,609**	$ 955,171
Raw material properties	**217,511**	209,904
	1,414,120	1,165,075
Accumulated depreciation and amortization	**534,616**	520,277
	$ 879,504	$ 644,798

6. **Commitments**

(a) The Corporation, as a participant in the Tilden Mine joint venture, is entitled to receive its 30% share of production and is committed to pay its share of costs including minimum charges for principal and interest to cover the servicing of long term debt. The Corporation's share of such minimum charges was $24.5 million in 1981 and will average approximately $20.4 million annually during the next five years.

(b) The estimated amount required to complete approved capital projects is $463 million which includes $212 million for the construction of a new seamless tube mill. These projects are expected to be completed during the next four years. At December 31, 1981 contractual commitments for these projects amounted to approximately $228 million.

7. **Long Term Leases**

Rentals under long term leases amounted to $10.4 million in 1981. Future minimum rentals will aggregate $70.8 million and in each of the next five years will be (in millions of dollars) $8.4, $8.3, $7.7, $6.8 and $6.0. These rentals are payable principally under leases of steel processing plant and equipment which contain options to purchase and under leases of raw material properties.

8. **Long Term Debt**

Thousands of Dollars	**1981**	1980
Debentures (a)		
7 3/8% series C maturing 1987	**$ 14,569**	$ 16,704
8 3/4% series D maturing 1991	**28,800**	29,450
10 3/8% series E maturing 1994	**43,688**	44,000
11 % series F maturing 1995	**61,642**	61,700
Floating rate series G maturing 1999 (b)	**60,000**	60,000
Floating rate series I maturing 1994 (b)	**46,880**	46,880
9.65% note maturing 2000 (c)	**35,000**	35,000
	$290,579	$293,734

Sinking fund requirements for 1982 have been satisfied by purchase of debentures in the open market and $2.2 million has been purchased in respect of such requirements for 1983 and $1.0 million for 1984. Unsatisfied sinking fund and other repayment requirements for each of the four years after 1982 are (in millions of dollars) $7.7, $11.5, $12.5 and $12.5.

(a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario.

(b) Series G income debentures bear non-taxable interest at 1 1/8% over one-half of the prime lending rate of a Canadian chartered bank. The Corporation is permitted to convert this obligation into series H debentures bearing taxable interest which varies from 1/4% to 3/4% over the prime lending rate of a Canadian chartered bank.

Series I income debentures in the principal amount of $40 million payable in United States currency bear non-taxable interest which varies from 1 1/4% to 1 1/2% over one-half of the London Interbank Offering Rate (LIBOR) or, at the option of the Corporation, from 1% to 1 1/4% over one-half of the prime lending rate of a Canadian chartered bank on United States

dollar demand loans to commercial customers resident in Canada. The debentures are convertible, at the option of the Corporation, into a Canadian currency obligation bearing interest which varies from 1% to 1¼% over one-half of the prime lending rate of a Canadian chartered bank. The Corporation is permitted to convert this obligation into series J debentures bearing taxable interest at various rates and, at the option of the Corporation, may be in either United States or Canadian currency. A United States currency loan would bear interest which varies from 3/4% to 1% over LIBOR or, at the option of the Corporation, from .30% to .55% over the prime lending rate of a Canadian chartered bank on United States dollar demand loans to commercial customers resident in Canada. A Canadian currency loan would bear interest which varies from .30% to .55% over the prime lending rate of a Canadian chartered bank.

(c) The 9.65% note is in United States currency and is repayable in annual instalments commencing in 1983.

(d) An agreement with three Canadian chartered banks provides for an aggregate borrowing of up to $250 million over a drawdown period ending December 30, 1985 to finance construction of a new seamless tube mill. There were no drawdowns under this line of credit in 1981.

9. Pensions

The unfunded liability for pensions in respect of past service is $179 million, as estimated by independent actuaries, of which $29.9 million is recorded in the statement of Financial Position. The unfunded liability includes an increase of $58 million resulting from 1981 revisions in pension plans.

Pension costs charged to earnings were $33.0 million in 1981 and include those arising from current service, annual interest on past service liabilities and annual payments respecting plan amendments and actuarial revaluations. It is planned that future payments will discharge the total unfunded past service liability by 1996.

10. Capital Stock

(a) Preference shares

Authorized — 7,741,200 shares of $25.00 each par value, issuable in series of which 2,141,200 shares are reserved for conversion of series A shares into series B shares.

Issued at December 31

Thousands of Dollars	1981	1980
8% cumulative redeemable tax deferred series A shares (2,141,200 in 1981 and 2,261,200 in 1980)	**$ 53,530**	$ 56,530
Floating rate cumulative redeemable retractable series C shares (2,000,000 in 1981 and 1980)	**50,000**	50,000
Floating rate cumulative redeemable retractable series D shares (1,200,000 in 1981 and 1980)	**30,000**	30,000
	$133,530	$136,530

Series A shares are entitled to annual dividends of $2.00 per share payable quarterly; commencing with the quarterly payment December 1, 1988, dividends received on that and future quarterly dates will be taxable. They are redeemable after June 1, 1981 at the option of the Corporation at a premium of $1.25 per share which reduces annually thereafter and are exchangeable after September 1, 1988 on a share for share basis at the option of the holder into 9¾% cumulative redeemable preference shares series B on which dividends will be taxable. The Corporation is obligated to purchase in each twelve month period up to 120,000 series A or B shares to the extent that they are available at market prices not exceeding $25 per share. The Corporation purchased for cancellation 120,000 shares in 1981 at prices averaging $20.69 per share.

Series C shares are entitled to quarterly dividends at a rate equal to 1½% over one-half of the mean prime lending rate of five Canadian chartered banks. They are redeemable at the option of the Corporation at a premium of $.50 per share which reduces annually. The shares have a retractable feature which requires the Corporation to invite tenders for the purchase of all such shares and to purchase at May 31, 1987 at $25.00 per share plus accrued and unpaid dividends all shares deposited with the Corporation pursuant to the invitation. Not less than 45 days prior to this date the Corporation is permitted to offer an increased dividend rate or to create additional retraction privileges for the benefit of shares not so purchased.

Series D shares are similar to series C excepting that they are entitled to quarterly dividends at a rate equal to 1⅜% over one-half of the mean prime lending rate of five Canadian chartered banks. The Corporation is similarly required to invite tenders for the purchase of these shares and to purchase shares so tendered at December 31, 1987.

(b) Common shares

Authorized — 30,186,704 shares without par value.
Issued — 14,029,353 shares at December 31, 1981 and 1980.

11. Dividends

Dividends were declared as follows:

Thousands of Dollars	1981	1980
Preference shares		
Series A		
$2.00 per share in 1981 and 1980	**$ 4,408**	$ 4,656
Series C		
$2.54 per share in 1981 and $2.19 in 1980	**5,073**	4,391
Series D		
$2.61 per share in 1981 and $2.15 in 1980	**3,129**	2,586
Common shares		
$1.10 per share in 1981 and $1.00 in 1980	**15,432**	12,275
	$28,042	$23,908

12. Related Party Transactions

The Corporation is a subsidiary of Canadian Pacific Enterprises Limited which at December 31, 1981 held approximately 58% of the Corporation's outstanding common shares. Canadian Pacific Enterprises Limited is a subsidiary of Canadian Pacific Limited, a diversified corporation with its head office in Montreal, Quebec, and consequently the Corporation is related to the numerous companies in the Canadian Pacific group. The Corporation owns 42.7% of the common shares of the associated company, AMCA International Limited, and a 30% interest in the Tilden Mine joint venture.

In the normal course of business the Corporation sells its products at prevailing market prices and credit terms to Canadian Pacific Limited and AMCA International Limited and their subsidiary companies. Similarly, the Corporation regularly purchases transportation and other services, capital goods and iron ore pellets from the related parties. The Corporation has a revolving operating line of credit at competitive rates with Canadian Pacific Securities Limited, a wholly-owned subsidiary of Canadian Pacific Enterprises Limited, in the amount of $40 million under which there were no amounts outstanding at December 31, 1981.

Transactions with related parties and balances at year end are as follows:

Thousands of Dollars	**1981**	1980
Transactions during year		
Sales of product	**$102,593**	$ 95,388
Purchases, principally transportation, capital goods and iron ore pellets	**$142,871**	$116,926
Interest income from short term investments	**$ 7,161**	$ 734
Interest expense on short term borrowings	**$ 100**	$ 537
Balances at December 31		
Short term investments	**$ —**	$ 38,000
Accounts receivable	**$ 13,960**	$ 13,933
Accounts payable	**$ 3,300**	$ 1,133

13. Business Segments Information

LINES OF BUSINESS

The Corporation is a vertically integrated steel producer which obtains most of its iron ore and coal requirements from properties which it owns, leases or in which it has an interest in Canada and the United States. The Corporations's revenue is derived almost entirely from the sale of rolled steel products, merchant iron, cokemaking by-products and raw materials that may be surplus to steelmaking requirements from time to time.

Virtually all of the Corporation's assets, excepting for the investment in the associated company, are related to integrated steelmaking activities.

OPERATIONS BY GEOGRAPHIC AREA

	Consolidated		Canada		United States	
Thousands of Dollars	**1981**	1980	**1981**	1980	**1981**	1980
Sales						
External	**$1,426,434**	$1,149,079	**$1,193,302**	$1,026,960	**$233,132**	$122,119
Intra-enterprise sales between geographic areas	**428,520**	315,512	**241,138**	114,876	**187,382**	200,636
	1,854,954	1,464,591	**1,434,440**	1,141,836	**420,514**	322,755
Eliminations	**(428,520)**	(315,512)	**(241,138)**	(114,876)	**(187,382)**	(200,636)
Total	**$1,426,434**	$1,149,079	**$1,193,302**	$1,026,960	**$233,132**	$122,119
Earnings						
From operations	**$ 238,665**	$ 147,688	**$ 227,169**	$ 130,669	**$ 11,496**	$ 17,019
Eliminations	**(3,951)**	(1,319)	**(5,281)**	(1,103)	**1,330**	(216)
	234,714	146,369	**$ 221,888**	$ 129,566	**$ 12,826**	$ 16,803
Other income	**21,811**	3,724				
Interest expense	**(30,709)**	(28,896)				
Income taxes	**(87,600)**	(38,800)				
Equity in earnings of associated company	**26,754**	26,851				
Net earnings	**$ 164,970**	$ 109,248				
Assets at December 31						
Identifiable	**$1,536,494**	$1,253,393	**$1,384,174**	$1,115,405	**$152,320**	$137,988
Investment in associated company	**181,691**	168,677				
	$1,718,185	$1,422,070				

Intra-enterprise sales between geographic areas are at market prices for similar products. Canadian operations include export sales of approximately $485 million (1980 - $323 million).

14. **Remuneration**

Total direct remuneration of directors and senior officers amounted to $2.0 million.

Peat, Marwick, Mitchell & Co.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1981 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Sault Ste. Marie, Canada
February 10, 1982

Chartered Accountants

THE ALGOMA STEEL CORPORATION, LIMITED

TEN YEAR SUMMARY OF OPERATING AND FINANCIAL DATA

Tons in thousands and dollars in millions excepting per share data		1981	1980	1979	1978	197
OPERATIONS						
Production — Iron Ore (1)	G.T.	**3,643**	3,732	4,125	4,109	3,83
— Coal (2)	N.T.	**2,727**	2,907	2,868	2,069	1,92
— Coke	N.T.	**1,411**	1,470	1,546	1,424	1,37
— Iron	N.T.	**2,907**	3,039	3,374	3,148	2,84
— Raw Steel	N.T.	**3,017**	3,179	3,528	3,317	2,97
Shipments — Steel Products	N.T.	**2,519**	2,415	2,597	2,456	2,20
Earnings and Related Statistics						
Sales	$	**1,426.4**	1,149.1	1,081.2	864.2	687.
Earnings Before Income Taxes and Equity Earnings	$	**225.8**	121.2	120.2	57.7	5.
Income Taxes	$	**87.6**	38.8	35.3	10.7	(15.
Equity in Earnings of Associated Company	$	**26.8**	26.8	27.0	22.6	16.
Net Earnings	$	**165.0**	109.2	111.9	77.1 (9)	37.
Applicable to Preference Shares	$	**12.8**	11.6	10.7	9.5	6.
Applicable to Common Shares	$	**152.2**	97.6	101.2	67.6	30.
Dividends Paid:						
On Preference Shares, and Related Taxes	$	**12.6**	11.6	10.6	9.4	6.
On Common Shares	$	**15.4**	12.3	8.2		2.
Earnings Retained in Business	$	**137.0**	85.3	93.1	67.7	28.
Cash Flow From Operations	$	**269.4**	181.4	180.7	109.5	41.
Per Common Share — Net Earnings (3)(4)	$	**10.85**	8.21	8.65	5.79	2.6
— Cash Flow From Operations (3)(4)	$	**18.29**	14.29	14.54	8.57	2.9
— Dividends Paid	$	**1.10**	1.00	.70		.2
Net Earnings as % of						
— Sales	%	**11.6**	9.5	10.4	8.9	5.
— Average Common Shareholders' Equity (5)	%	**18.8**	14.8	19.0	15.0	7.
— Average Total Investment (6)	%	**13.6**	11.0	13.2	10.5	6.
Cost of Products Sold as % of Sales	%	**78.2**	81.2	80.9	84.1	88.
Depreciation and Amortization	$	**49.7**	47.3	39.9	35.7	33.
Capital Expenditures						
Manufacturing Facilities	$	**246.6**	82.4	65.2	24.2	15.
Mining Properties	$	**18.1**	24.8	24.1	15.0	14.
Total	$	**264.7**	107.2	89.3	39.2	29.
Long Term Debt						
Borrowings — Debentures	$			106.9		
— Other	$		35.0	.3	3.5	3.
— Total	$		35.0	107.2	3.5	3.
Repayments	$	**3.2**	39.9	57.3	6.1	16.
Interest and Expense	$	**29.8**	27.5	27.6	24.8	22.
Financial Position at Year End						
Current Assets	$	**608.6**	562.1	435.5	362.4	298.
Current Liabilities	$	**235.8**	157.2	150.9	155.5	145.
Working Capital	$	**372.8**	405.0	284.6	206.9	153.
Net Fixed Assets	$	**879.5**	644.8	587.0	549.8	557.
Total Assets	$	**1,718.2**	1,422.1	1,224.1	1,050.8	973.
Total Investment (7)	$	**1,482.4**	1,264.9	1,073.2	895.3	827.
Long Term Debt	$	**290.6**	293.7	298.6	248.7	251.
Preference Shares	$	**133.5**	136.5	139.8	140.0	140.
Common Shareholders' Equity	$	**878.0**	741.0	578.8	485.4	417.
Number of Common Shares Issued (000)	No.	**14,029**	14,029	11,691	11,672	11,67
Common Shareholders' Equity Per Share (8)	$	**62.52**	52.77	49.44	41.53	35.7
Number of Common Shareholders	No.	**7,142**	7,812	8,748	9,369	10,39

976	1975	1974	1973	1972
089	3,478	3,165	3,217	2,961
235	2,425	1,984	2,413	2,490
539	1,294	1,376	1,429	1,413
806	2,624	2,774	2,619	2,288
888	2,748	2,763	2,650	2,426
036	1,968	2,018	1,946	1,753
34.8	541.5	474.1	376.2	310.0
4.3)	16.3	57.9	30.8	12.2
25.6)	(10.6)	13.5	7.5	(.3)
2.5	13.1	8.6	5.0	5.2
23.8	43.5 (10)	53.0	28.3	17.7
4.0				
9.8	43.5 (10)	53.0	28.3	17.7
3.5				
2.9	16.3	15.8	7.3	5.8
7.4	27.2	37.2	21.0	11.9
9.2	49.6	89.4	57.8	32.7
.70	3.72 (10)	4.54	2.43	1.53
.30	4.25	7.66	4.97	2.82
.10	1.40	1.35	.625	.50
4.1	8.0	11.2	7.5	5.7
5.1	11.7	15.7	9.2	6.1
4.9	8.1	11.0	6.9	4.9
89.8	85.1	77.8	80.8	84.8
33.0	29.3	26.1	23.5	20.6
33.5	84.1	113.0	49.0	45.4
7.0	18.6	18.6	16.0	6.6
50.5	102.7	131.6	65.0	52.0
	65.0	50.0		
0.7	31.4	15.5	30.7	1.2
0.7	96.4	65.5	30.7	1.2
6.7	3.5	2.2	3.4	2.2
3.1	19.2	10.6	6.4	5.9
4.5	220.0	166.1	131.3	129.5
5.2	141.7	109.2	68.2	75.3
9.3	78.3	56.9	63.1	54.2
0.4	539.7	468.4	366.1	326.5
4.4	849.4	706.7	551.7	502.8
9.2	707.7	597.5	483.5	427.5
4.2	260.2	167.4	104.1	76.8
0.0				
9.7	384.0	356.8	319.1	297.5
672	11,670	11,670	11,635	11,595
.35	32.90	30.58	27.42	25.65
542	11,536	12,220	14,958	16,191

Notes:

(1) Includes mines operated by the Corporation and its share of production from joint ventures.
(2) Metallurgical and steam coal.
(3) After provision for dividends on preference shares.
(4) Based on weighted average number of common shares outstanding during the year.
(5) Net earnings are after deduction of amount applicable to preference shares.
(6) Net earnings are before deduction of interest on long term debt net of income taxes, and total investment is before deduction of current portion of long term debt.
(7) Total assets less current liabilities.
(8) Based on common shares issued as at December 31.
(9) Includes an extraordinary credit of $7.5 million amounting to 64¢ per common share.
(10) Includes an extraordinary gain of $3.5 million amounting to 30¢ per common share.

Directors

Russell S. Allison
Montreal, Quebec
Executive Vice President
CP Rail

*† **Robert D. Armstrong**
Toronto, Ontario
Former Chairman and
Chief Executive Officer,
Rio Algom Limited

Ian A. Gray
Vancouver, British Columbia
President, Canadian Pacific
Air Lines, Limited

* **John Macnamara**
Sault Ste. Marie, Ontario
Chairman and Chief
Executive Officer,
The Algoma Steel
Corporation, Limited

‡ **W. Earle McLaughlin**
Montreal, Quebec
Former Chairman,
The Royal Bank of Canada

†‡ **Arthur H. Mingay**
Toronto, Ontario
Chairman, Canada Trust

*† **Paul A. Nepveu**
Montreal, Quebec
Chairman, CIP Inc.

Peter M. Nixon
Sault Ste. Marie, Ontario
President and Chief
Operating Officer,
The Algoma Steel
Corporation, Limited

‡ **Leonard N. Savoie**
Sault Ste. Marie, Ontario
President and Chief
Executive Officer,
Algoma Central Railway

* **W. John Stenason**
Montreal, Quebec
President, Canadian Pacific
Enterprises Limited

Robert J. Theis
Syracuse, New York
President, Canadian
Pacific Enterprises
(U.S.) Inc.

* **Walter G. Ward**
Toronto, Ontario
Former Chairman,
The Algoma Steel
Corporation, Limited

* Member of Executive Committee
† Member of Compensation Committee
‡ Member of Audit Committee

Principal Officers

John Macnamara
Chairman and Chief
Executive Officer

Peter M. Nixon
President and Chief
Operating Officer

Robert N. Robertson
Senior Vice President –
Commercial

Patrick L. Rooney
Senior Vice President –
Operations

§ **Douglas Joyce**
Senior Vice President

Ross H. Cutmore
Vice President –
Accounting

Samuel H. Ellens
Vice President –
Administration

Donald L. McEachern
Vice President – Sales

R. Gordon Paterson
Vice President –
Engineering

John J. MacDonald
Secretary

J. Kenneth Morano
Treasurer

William J. Reed
Controller – Steel and
Iron Ore Operations

§ Retired February 1, 1982

Corporate Information

MANUFACTURING AND MINING FACILITIES

Canada

Sault Ste. Marie, Ontario

The Algoma Steel Corporation, Limited
- Steelworks Division
- Tube Division
- Marine Division
- Welded Beam Division

Wawa, Ontario
- Algoma Ore Division

United States

West Virginia

Cannelton Industries, Inc.
- Kanawha Division, Cannelton
- Pocahontas Division, Superior
- Indian Creek Division, Peytona

Maple Meadow Mining Company, Fairdale

Michigan

Cannelton Iron Ore Company
- Tilden Mine Joint Venture, Ishpeming

Algoma Tube Corporation, Dafter

INCORPORATION

Under the laws of the Province of Ontario

SHARE TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Royal Bank of Canada Trust Company, New York

SHARES LISTED

Montreal, Toronto and Vancouver Stock Exchanges

TRUSTEE FOR DEBENTURES

Montreal Trust Company, Toronto, Ontario

REGISTRAR FOR DEBENTURES

Montreal Trust Company, Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

VALUATION DAY VALUES

(for Canadian Income Tax Purposes)

Series C Debenture	$ 94.00
Series D Debenture	$103.50
Common Share	$ 13.38

Products and Sales Office Locations

PRODUCTS

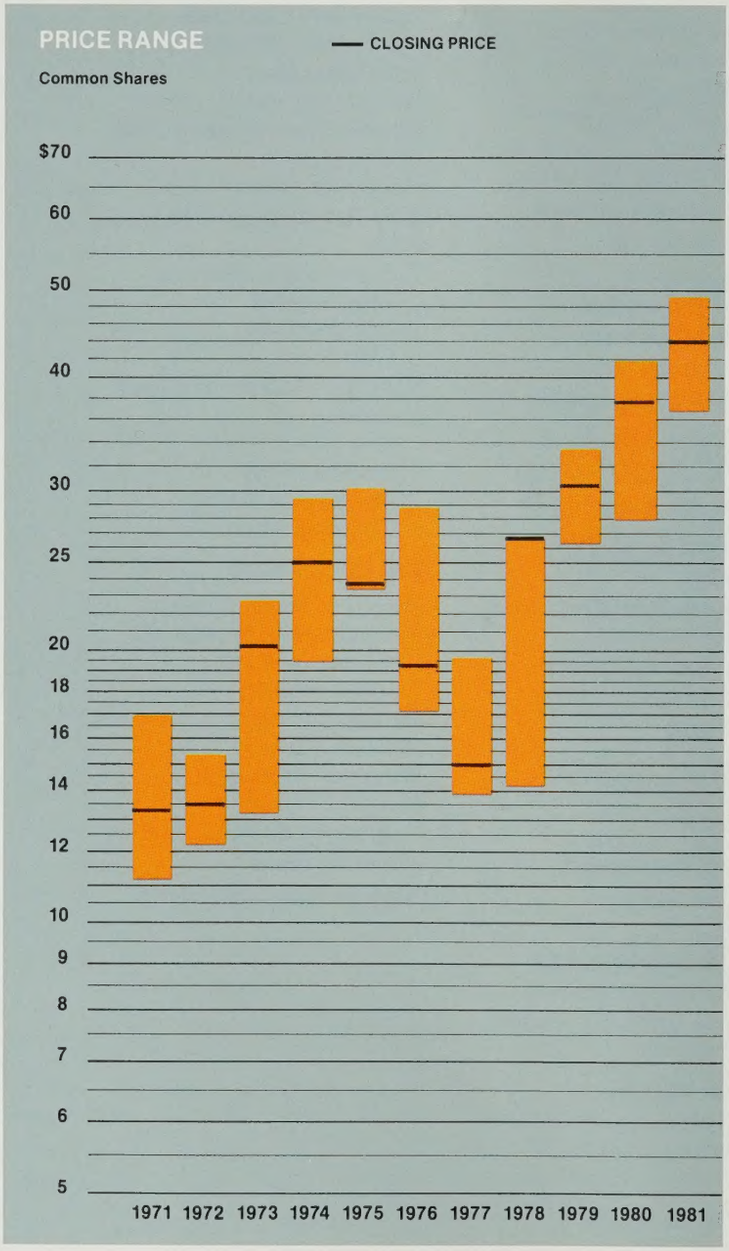
Algoma Sinter
Coal
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Shapes
H-Bearing Piles
Standard Angles, Channels and Beams
Zees
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet
Cold Rolled Sheet and Strip
Plate
- Sheared and Gas Cut
- Heat Treated
- Universal Mill
- Floor

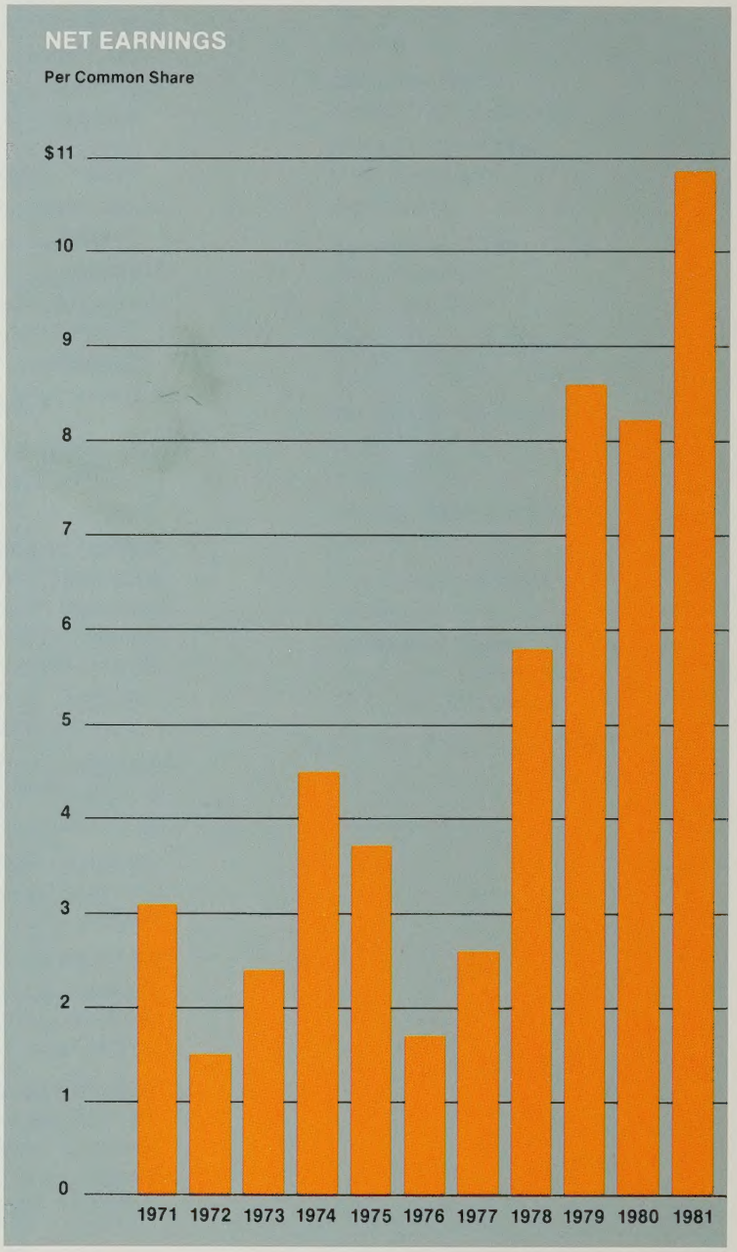
Seamless Tubular Products
- Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Coupling Stock

SALES OFFICES

Sault Ste. Marie, Ontario
Moncton, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Vancouver, British Columbia
Houston, Texas*

*Algoma Tube Corporation


PRICE RANGE
CLOSING PRICE
Common Shares
$70
60
50
40
30
25
20
18
16
14
12
10
9
8
7
6
5
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981


NET EARNINGS
Per Common Share
$11
10
9
8
7
6
5
4
3
2
1
0
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

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